





## The Cattle Industry

Crop insurance has been around for years but there has been a big gap in insurance for ranchers. Congress directed USDA RMA to develop an insurance program for pasture, rangeland and forage. The insurance is based upon either a Rainfall Index (RI) or Vegetation Index (VI). New Mexico is testing the VI program. Texas, Oklahoma and Kansas use the RI program. Insurance can be purchased for either a 2-month (RI) or 3-month period (VI). Verification is based upon rainfall or vegetation conditions over a grid instead of the usual county-based methods. Losses are based upon the data so that producers need not maintain loss records, allowing more timely payments.. The VI uses satellite remote-sensing of vegetation health to calculate a departure from average conditions to determine where biomass production is below normal. In New Mexico, this captured a transition from near-record health early in the year to record poor health during summer. The RI uses observed daily rainfall to determine departures from normal. Through September, payments for VI have totaled \$4.1M, with \$3.7M of that total in New Mexico. RI payments have totaled \$151M, with \$132M in Texas, \$2M in Oklahoma and \$714,000 in Kansas. More details are on [www.rma.usda.gov](http://www.rma.usda.gov).

### Presenters:

Amy Roeder – USDA Risk Management Agency

Derrell Peel – Oklahoma State University Extension

Manny Encinias – New Mexico State University Extension

Eldon White – Texas & Southwest Cattle Raisers Association

Because of record high cattle prices, ranchers have been able to maintain revenue despite the unprecedented numbers of animals moving through markets. However, the drought has put a dent in long-term plans of increasing national inventory, which had been steadily declining since 1975. In 2011, Oklahoma experienced a decline of 12%, rates never before seen in the state. November proved to be remarkably good conditions for winter wheat pasture, greatly improving the dim prospects from October and allowing ranchers to bring in more stocker cattle than anticipated, although still well below normal levels. If drought returns with a pattern similar to 2011, expectations are for additional liquidation to kick in early in April due to tighter feed and financial resources. If drought is delayed until summer, there will be more flexibility in maintaining herds, although financial resources will still be an issue. Long-term rebuilding of herds will face higher costs due to the market's high prices and reduced availability of proper genetic stock. More patient recovery strategies and consideration of new production mixes are encouraged as we come out of the drought.

In New Mexico, the year began with the lowest inventory of the last 20 years, partly attributed to lingering drought since 2000. During 2010-2011, more than 100,000 head have been sent to other pastures, sold, or harvested, most from eastern New Mexico. Nearly 64,000 cows will be needed to replace these. Like elsewhere in the drought-stricken region, limited winter grazing options and water availability are primary concerns. Coupled with imported forage comes introduction of new weeds as grasses come into the region, some from as far away as Manitoba, Canada. Buyers should also beware of differences by state in how producers define their quality of hay. Lower quality of feed also could cause cattle to become energy-deficient. In addition to feeding high-protein cake, there are many other commodity-based products on the market that can help decrease supplement costs. Water concerns are perhaps more dire as cattle deaths have increased related to high mineral concentrations in the dwindling water supplies. Major decisions revolve around how long producers feel they can stay in and how long they can continue to provide feed, knowing many calves have already left the state.

A decision-map used by cattle raisers begins in spring (April-May) as ranchers assess the prospects for spring rains and forage growth. Based on these perceptions, they formulate plans for stocking rates, pasture rotation, and future hay needs. In Summer (June-August), the plan is implemented. During drought, options include weaning calves at lighter weight to save feed and reduce nutrition needs of cows, to extend available pasture through fed hay or "range cubes", more frequent pasture rotation, use of reserve pasture, or leased pasture out of state. If these options prove insufficient, ranchers will reduce herd size. During fall (September-November), plan adjustments are made. Water supplies become critical, the cost of feeding increases dramatically, and distance to available pasture increases, resulting in higher pasture lease costs or increased transportation costs. A critical decision point comes in mid-September based on prospects for fall wheat grass pasture availability and cost of hay for the winter. Decisions in this next cycle may be even more difficult as there is limited wheat grass pasture, a projected return of La Nina – and drought, and 2012 spring rains are uncertain.

In Texas, the story is the same, only worse. Of the 15,500 members of the Teexas and Southwest Cattle Raisers Association, 84% have reported reducing herd size by an average of 38%. This translates to a net reduction of 600,000 to 800,000 head, or about 12%-16% of supply. Total impacts on the Texas economy are estimated at \$2.2 billion from livestock losses alone. But with the unquenchable optimism common to those in the agricultural industry, there are bright spots for the future. As the cattle herd is rebuilt, it will be higher genetic quality as many of the older, less productive, lower genetic stock were the ones sold. Long-term planning, moving to a 10-year planning cycle for managing grass, appears more viable to soften the impacts of future droughts. Lastly, even though the effects of a single-year drought will be felt for another two to three years – and longer if the drought continues – it is important to remember that cattle raisers are survivors.